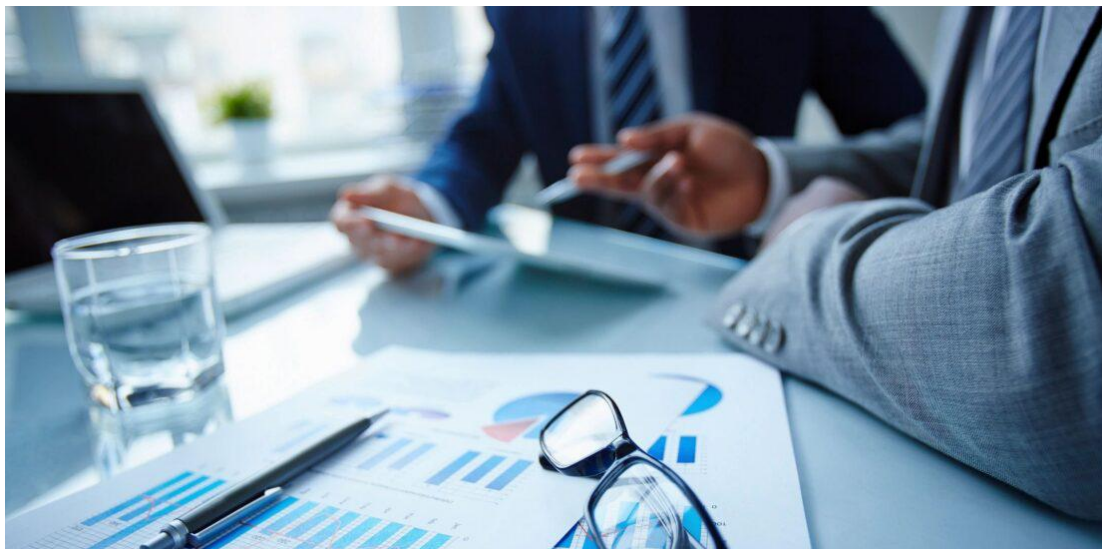


# *What is all about Economic Substance Regulations in UAE*



## *What is the “Distribution and Service Centre” Business?*

The Business “Distribution and Service Center” refers to two separate types of activity, which are covered by one heading “Relevant Activities”. A UAE entity is deemed to be involved in a distribution business if:

- Purchases goods from persons associated with foreigners; and
- Import these goods into the UAE; and
- Distributes these products outside the UAE. Organization in the UAE is considered to be employed in the Service Center.

Business if it:

- Provides services to a person associated with foreigners; and
- These services are related to the activities of a Foreign Affiliate outside the UAE. The business entity requirements for the distribution and service center business are applicable to UAE organizations whose main activity is the distribution and / or service center. Licensees engaged in Banking, Insurance, Investment Fund Management, Lease-Finance, Shipping, or Headquarter Business may also purchase goods for, and/or provide services to foreign group companies as a normal part of their business operations. In order to avoid duplication of reports, such Licensees are also not considered to be employed at the Distribution and Service Center. Units of the United Arab Emirates that buy and sell goods from third parties and to third parties or provide services to third parties are not subject to the Regulation (like the Distribution and Service Center).

### *What is a UAE Investment Fund Management Business?*

A UAE entity that provides discretionary investment management services to Collective Investment Vehicles located in the UAE or in a different jurisdiction. An Investment Fund Management Business includes making discretionary investment, divestment and risk-related decisions on behalf of an investment fund. UAE entities providing other types of investment fund related services such as fund administration, investment advisory and custodian services are not considered engaged in an Investment Fund Management Business.

### *What is Lease-Finance Business?*

A UAE subject is considered involved in leasing and financial activities if it provides a loan or leases assets, equipment or any other goods to another person for consideration. Providing credit includes making loans and entering into other financing arrangements such as hire purchase agreements and finance leases. Licensees engaged in Banking, Insurance, and Fund Management Business may also perform lease or financing activities as a normal part of their business operations. To prevent duplicate reporting, such Licensees are not also considered engaged in a Lease-Finance Business and will not need to separately demonstrate economic substance in respect of any ancillary Lease-Finance activities.

### *Is lending to another group entity considered a “Lease-Finance Business”?*

Yes, a UAE organization that provides a loan or provides any other form of loan to a UAE or a company of a foreign group for consideration (for example, interest) will be considered involved in leasing and financial activities.

### *Is investing and trading in debt securities considered undertaking a Lease-Finance Business?*

No, UAE organizations that invest and hold bonds and other debt securities that are traded on a regulated exchange are not considered involved in the leasing finance business.

### *What if there is no consideration payable for the credit provided?*

The Regulations do not apply to credit and other financing and leasing arrangements where there is no expectation of consideration in the form of interest, fees, rental payments, capital gains or any other form of compensation. The grant of security in favour of the lender would not constitute consideration.

### *What is the Headquarter Business?*

A UAE entity that provides services to other entities of a foreign group and through the provision of such services:

- has taken on the responsibility for the overall success of the group; or
- is responsible for an important aspect of the group's performance.

*Does an entity need to be the 'parent' company to be considered a Headquarter Business?*

No, a group's corporate structure is not relevant in determining whether a UAE entity within the group is engaged in a Headquarter Business. Whether an entity is engaged in a Headquarter Business is entirely dependent on the nature of the services provided to foreign group companies.

*Can an entity be considered engaged in a Headquarter Business in addition to carrying on another Relevant Activity?*

It is possible if the Relevant Activities form two or more different activities. However, if an activity that otherwise falls under the definition of Headquarters Business is part of Licensee's other core Related Activities, Licensee will not be deemed to be also involved in Headquarters. For example, a UAE subsidiary in a nonprofit insurance group will not be considered a leading "head office" simply because it assumes a significant risk on behalf of the group.

*Who needs to notify and by when?*

Licensees that carry out Relevant Activities (whether the Licensee has the right to the exemption in accordance with the Rules or received income from Relevant Activities during the relevant financial period) must submit a simple notice to their regulatory authority. Notices for the financial period of 2019 may be submitted on or after January 1, 2020.

*Who needs to file an economic substance return and by when?*

Only Licensees who receive income from the Related Activities during the relevant financial period and who are not exempted from the Rules are obliged to demonstrate an economic entity in the UAE and submit a declaration of the economic entity. The return of the economic substance must be filed within 12 months after the end of the relevant financial period.

*What are the penalties for non-compliance?*

Refusal of notification: from 10,000 to 50,000 dirhams when provided inaccurate or when complete information is not provided:

- A fine of 10,000 to 50,000 dirhams; and
- Alleged inability to demonstrate economic substance in the UAE. Inability to demonstrate sufficient economic substance in the UAE for the corresponding fiscal year: first failure
- A fine of 10,000 to 50,000 dirhams; and
- Exchange of information with foreign competent authorities: (1) the parent company, (2) the ultimate parent company, and (3) the ultimate beneficial owner.  
Second consecutive failure case  
Information exchange with the foreign competent authority of (1) parent company, (2) ultimate parent company, and (3) ultimate beneficial owner; and
- A penalty of AED 100k to 300k; and
- Trade / commercial licence could be: suspended, withdrawn or not renewed.  
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